



H.R. 3997 – Heroes Earnings Assistance and Relief Tax Act of 2007

FLOOR SITUATION

H.R. 3997 is being considered on the floor under suspension of the rules and will require a two-thirds majority vote for passage. This legislation was introduced by Representative Charles Rangel (D-NY) on October 30, 2007. The bill was ordered to be reported, as amended, by voice vote in the Committee on Ways and Means on November 2, 2007.

H.R. 3997 is expected to be considered on the floor of the House of Representatives on November 6, 2007.

SUMMARY

Permanently Includes Combat Pay as Earned Income for Tax Purposes: H.R. 3997 permanently extends the December 31, 2007 expiration of the ability of American soldiers to include combat pay as earned income for the purposes of the Earned Income Tax Credit (EITC).

Permanently Waives the First Time Homebuyer Requirement for Veterans Financing Mortgages With Mortgage Bonds: The bill permanently waives the first-time homebuyer requirement that applies to mortgage bonds that are issued to finance mortgages for veterans. Under current law, the first time homebuyer requirement is only waived for mortgage bonds issued before January 1, 2008.

New Changes Made to Mortgage Revenue Bonds for Veterans: H.R. 3997 increases the limit on how many veterans' mortgages may be financed through state issued mortgage bonds in the states of Alaska, Oregon, and Wisconsin from a total of \$25 million to a new total of \$100 million for each state. The bill also repeals a requirement that veterans receiving loans financed by qualified veterans' mortgage bonds issued in California and Texas must have served before 1977 and reduces the eligibility period for applying for financing from 30 years to 25 years following an individual's release from military service.

Survivor Benefits in the Event of the Death of a Qualified, Active Military Service Member: The bill requires that in the event of the death of a qualified, active military service member that the service member's retirement plan must allow the day prior to the date of death to be treated as the date the employee returned to work for the purposes of

triggering payment of benefits under their plan. This will allow the survivors of deceased service members to receive survivor benefits that are only issued in the event that a service member terminates their employment on account of death.

Treating Differential Military Pay as Wages: H.R. 3997 establishes that when an individual is called to active duty in the armed forces and their employer voluntarily pays the difference between the individual's civilian salary and the salary they receive from the military while on active duty (known as 'differential pay'), the differential pay may be treated as wage compensation for retirement plan purposes and wages may be withheld from that amount for retirement plan benefits.

Federal Income Tax Exclusion for State and Local Tax Benefits for Volunteer Firefighters and Emergency Medical Responders: The bill will relieve volunteer firefighters and emergency medical responders from having to claim as income for federal tax purposes the reductions or rebates on their state and local taxes that they receive for their volunteer services.

Time Extension for Service Disabled Veterans to File for Tax Refunds or Credits: The bill will extend the amount of time provided for qualified service-disabled veterans to file for certain tax refunds or credits that are awarded after the veterans' tax return has already been filed.

Penalty-Free Withdrawals from their Retirement Plans for Active Duty Reservists: H.R. 3997 permanently extends the authorization for active duty reservists to make penalty-free withdrawals from their retirement plans; the current authorization expires on December 31, 2007.

Disclosure of Tax Return Information to the Department of Veterans Affairs: H.R. 3997 permanently extends the authorization for the Social Security Administration (SSA) to disclose tax return information to the Department of Veterans Affairs for the purposes of determining eligibility for certain veteran's programs, which is set to expire on September, 30, 2008.

Contributing Military Death Benefit Payments to Roth IRAs or Education Savings Accounts: The bill will permit recipients of military death benefit payments to contribute those payments to a Roth IRA or an education savings account.

New Tax Benefits to For Peace Corps Volunteers: H.R. 3997 will allow Peace Corps volunteers to omit the time they serve in the Peace Corps from counting against them in meeting the requirements for excluding a portion of the income received from the sale of a primary residence from their Federal Income Tax. Current law permits a taxpayer to exclude up to \$250,000 of the gain realized from the sale of a principal residence, as long as they have owned and used the property as a principal residence for at least two of the five years ending on the date of the sale.

Increasing Eligibility for Supplemental Security Income for Blind Veterans and AmeriCorps Volunteers: The bill will disregard both the state annuity payments paid to blind veterans and the benefits or allowances paid to all AmeriCorps volunteers when determining Supplemental Security Income (SSI).

New Penalties on “S-Corporations” and Partnerships: H.R. 3997 increases the penalty on Partnerships that fail to file tax returns from \$50 for each partner for every month that the failure continues for up to five months to \$100 per month for up to twelve months. The bill also creates a parallel penalty for S-Corporations that fail to file tax returns in the amount of \$100 per shareholder per month that the failure continues for up to twelve months.

**Note: The Joint Committee on Taxation estimates that these provisions will increase federal revenues by \$1.6 billion over ten years.*

Increased Penalties for Incorrect and Late Information Returns: The bill will increase the penalties on businesses and individuals that are late to file or file incorrect information returns which include employee salary information, the amount of interest paid to account holders, etc. H.R. 3997 generally doubles most penalties, for example the bill increases the penalties for failure to file correct information returns, which are currently set at \$50 up to \$250,000 in one year, to \$100 up to \$600,000 in one year.

**Note: The Joint Committee on Taxation estimates that these penalties will increase federal revenues by \$280 million over ten years.*

Increased Penalty for Failure to File a Tax Return: H.R. 3997 increases the penalty for failing to file a tax return from \$100 to \$225.

**Note: The Joint Committee on Taxation estimates that this penalty will increase federal revenues by \$296 million over ten years.*

BACKGROUND

According to the IRS, the Earned Income Tax Credit (EITC) “is a refundable federal income tax credit for low-income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit.”

Mortgage revenue bonds are a type of “private activity bond,” which CRS explains as financial products used by state governments to finance certain activities: “The federal tax code allows state and local governments to use tax-exempt bonds to finance certain projects that would be considered private activities. The private activities that can be financed with tax-exempt bonds are called “qualified private activities.” Congress uses an annual state volume cap to limit the amount of tax-exempt bond financing generally and

restricts the types of qualified private activities that would qualify for tax-exempt financing to selected projects defined in the tax code.”

COST

The Congressional Budget Office (CBO) did not have a cost estimate of H.R. 3997 available at the time of publication.

STAFF CONTACT

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